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Linda McCulloch  
Superintendent

**Joint Appropriations Subcommittee on Education  
Office of Public Instruction – Local Level Program 09  
January 22, 2003  
Superintendent Linda McCulloch's Remarks**

Good Morning. For the record, I am Linda McCulloch, Superintendent of Public Instruction for K-12 education. I am pleased to be here today to tell you about Montana's Office of Public Instruction's responsibility to Local Education Activities, Program 09, which are the state and federal funds we distribute to 441 public school districts and 21 special education cooperatives.

Please take a moment to think back to when we were in school and recall what the world of work looked like. In 1950 the demand for professional jobs was about 20%, and skilled labor was 20%, and unskilled labor demand was 60%. Flash-forward -- by 2000 demands for professionals has virtually remained unchanged, unskilled labor is 15%, but 65% of the jobs are now expecting the available workforce to have a set of skills that were unimaginable 50 years ago. Think about it, an elementary school teacher will teach a 6-year-old child and prepare her or him for what they will encounter in education and work 50 or 60 years from today. Teachers prepare students for jobs that don't even exist today.

Our students and schools are not immune from this changing world around them. Gone are the days of 5-cent pencils as the sole writing instruments. Students are now learning key boarding in elementary grades. Thus, schools are expected to stay technologically current and absorb new expenses for \$2000 computers, essential to preparing our students for higher education and careers, yet outdated in a few years. Teachers are also expected to stay up-to-date with their evolving academic field and teach increasingly more complicated skills to make sure that our Montana students are prepared to go to college, technical school or find a job.

My focus for the OPI is basic: to get resources to Montana classrooms to help our kids succeed in this rapidly changing environment. My top priority is to increase BASE aid funding for K-12 schools and special education. The reason is simple – schools are at a crisis point in trying to provide the educational system that the public wants and expects in our schools.

### Distribution of School Funds

Let me explain the OPI distribution of state funds for schools and local education activities. I would like you to please refer to a chart that I passed out to you on Monday. I want to focus your attention on the BIG blue slice of the pie. Just a reminder -- the K-12 pass through funds are not available for the Office of Public Instruction operations. The OPI is responsible for distributing \$560 million (40% of the Montana State Budget) of monthly state aid payments to Montana's 441 school districts under eight separate

entitlement programs. As we demonstrated on Monday, the OPI is extremely efficient at collecting and compiling school district budgets, financial, enrollment and payment information. I am particularly proud of the way we assist schools with their financial reporting functions. It is important to me that the information schools are required to report result in meaningful tools for schools and local decision makers to use to improve classroom learning. I view it as an essential resource that we can provide schools that are already over-burdened, as well as account for state and federal tax dollars.

### Enrollment Based Formula

As you know, Montana's school funding formula is based on enrollment and Montana is experiencing declining school enrollment. These two basic factors are creating a challenge for our schools. Schools are affected by Montana's shifting demographics driven by a combination of lower birth rates, which are projected to continue to decline through at least 2013, and the departure from the state and lack of in-migration of families with school-age children. Since peaking in the 1994-95 school year, Montana elementary school enrollment has steadily declined. It took a few more years, but in 1998-99 we have been seeing the same decline in the high school population. A few exceptions to these declining trends are scattered around the state, such as in Mineral and Yellowstone counties that are seeing an increase in their high school population. It is important to note that about 12,000 students in Montana are either home schooled or attend private school – a count that has remained stable for many years. In summary, Montana schools have experienced an overall 9% decline in enrollment over the past 7 years (1995-1996). We expect to see this downward trend continue if the live birth projections hold true.

What happens to a school when its enrollment declines? Does fewer students mean lower costs? As State Superintendent, I deal with situations and information on a statewide level, always considering how decisions will impact all the schools in Montana. That is the perspective I should have when my job is to be the chief advocate for Montana's 150,000 kids. But quite often I want to focus in on a decision and "get back in the classroom." I then go to what I know best – Bonner School – where I was in my 16<sup>th</sup> year of teaching when elected to the State Superintendent. Bonner is a rural K-8 school district with about 340 students and fairly typical of schools in Montana. Regarding declining enrollment lets see what might happen at Bonner. Say that 2 fewer students have enrolled in the first grade, 1 less in second grade, 1 less student for the third grade, fourth grade remains the same and the fifth grade has lost 2 students and 2 less in 6<sup>th</sup> grade. In total the school would have 8 fewer students. Funding from the

state averages \$3,000 per student, so an 8-student reduction means a loss of \$24,000 for the school's budget. This is roughly equivalent to a teacher's salary. However, school operating costs do not drop in direct proportion to the enrollment decline. Many classroom costs are fixed and on going – the building still needs to be heated, the lights still need be turned on, and the computer systems still need to be maintained. Bonner didn't lose an entire class for any grade level, nor eliminate the need for music and P.E. And, a set of encyclopedias still costs about \$900 even if there are fewer students to use them. In summary, the declining enrollment in my "Bonner" scenario is not enough to cut a classroom, but the reduced revenue equates to the need to cut a classroom teacher.

Parents become concerned when they are paying more taxes, yet experiencing larger class sizes and fewer classroom materials for their children. I know from personal experience how hard it is to make the painful and difficult decisions on how to preserve educational programs, deliver high quality education, and recruit and retain quality teachers. Even though solutions to declining enrollment vary by school, we are all concerned with a chipping away of quality education in Montana's schools.

#### School Funding History

Before I provide a brief legislative history of school funding, it is important to note that schools operate differently than state agencies. School districts are not included in the State annual inflationary adjustments or pay plan increases. These costs must be absorbed in any increases or decreases they receive in state funding each year. It is also important to remember that when we speak here at the Legislature of current level funding or the 2002 budget, school districts are in the 2002-2003 school year. They received a 1.88% increase in the per-student funding rates for this school year and starting our discussions at FY2002 ignores the fact that our school funding rates have increased for this school year.

#### School Funding History

Let's take a quick look at recent school funding that has brought us to where we are today.

- In 1993 when school enrollments were increasing and the state could not balance the budget, the Legislature re-did the school funding formula to take money out of schools and balance the budget. Schools were cut a total of \$50 million during the regular and special session that year.
- The 1995 Legislative session gave no increase to schools for the next two years.
- The 1997 Legislative session gave a 1% per-pupil funding rate increase for the next two years. Schools also received a one-time only appropriation on building maintenance and technology.

- Then in 1999, when the state enjoyed a surplus, schools received increases of 3.5% in elementary schools and 1% in high schools. And in a special session, with yet another surplus, schools received an additional 3.0% per pupil increase for elementary and high school.

It wasn't until FY2000 that the per pupil funding rates had been restored back to the level set by the 1993 Legislature when it adopted HB667.

- And, here we are today. The 2001 Legislature provided an increase of 1.88% for both years of the biennium. The increase included the Governor's request and an increase funded by SB495, a joint effort of two teachers -- Secretary of State Bob Brown and me.

The best way to really see what the school funding history means is to spend some time in your local schools. Perhaps the best illustration of the effects of declining enrollment was after the 2001 Session when a Legislator asked me why their local school district had less money than the school year before when he knew that the Legislature had passed a 1.88% per-pupil increase in state funding. The answer goes back to the issue of declining enrollment. Once again, the impact of declining enrollment negated the increase in the funding rates.

I hope that this history helps you to understand why the OPI has a budget request to increase the K-12 BASE Aid by 3.7% in the first year and 3.2% for the second year. The staff has taken time to prepare a chart detailing the state funds for schools from FY98 to our current proposal for FY04 and FY05.

### Special Education

Given that schools are already operating on very limited budgets, I want to bring to your attention how the costs of special education have further impacted schools across Montana. Please refer to the handout in your packet. Expenditures of state funds are shown in blue, federal funds in red, and local funds in yellow. Approximately \$81.7 million, consisting of state, local and federal funds were spent to support special education services in fiscal year 2002.

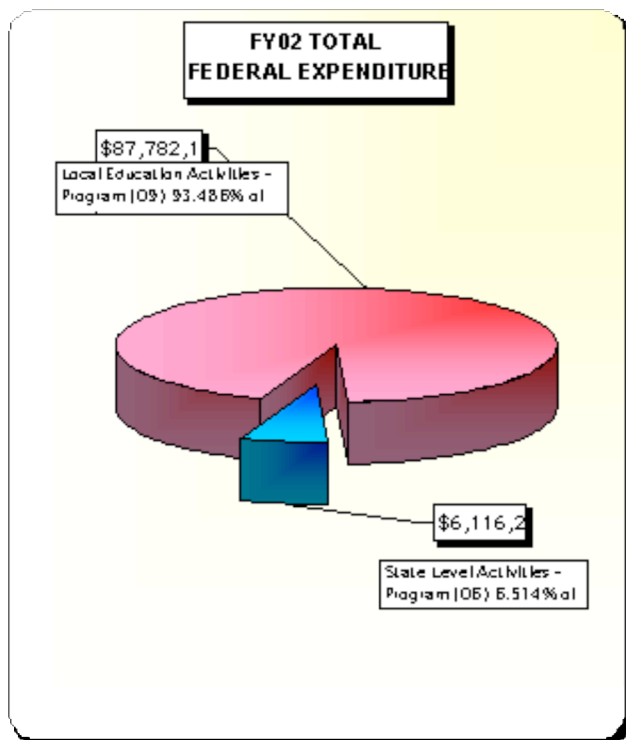
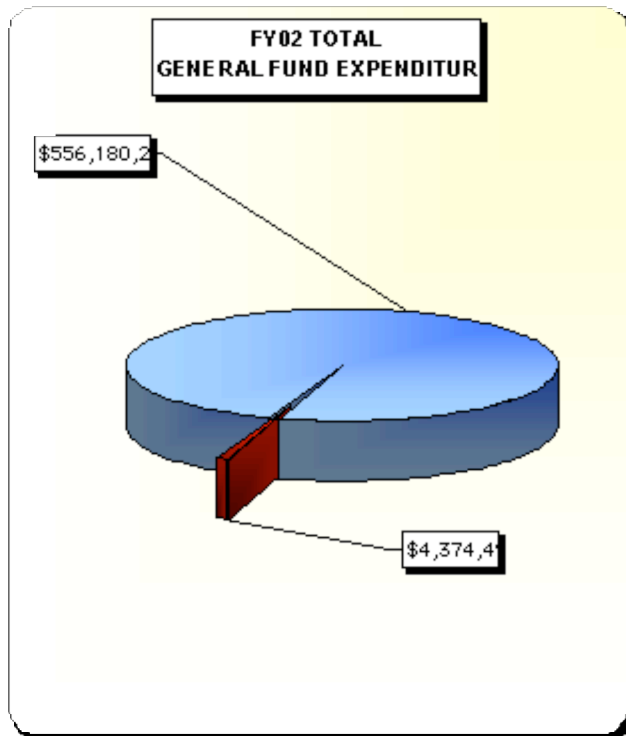
Expenditures of state funds for special education have remained essentially flat, growing from \$33.3 million in fiscal year 1990 to \$33.9 million in fiscal year 2002. In the same timeframe, local contributions have grown from approximately \$3 million to a little over \$31 million and expenditures of federal funds have grown from \$4.6 million to \$16.6 million. The shortfall of state funding for special education has had a significant negative impact on educational services for all students. Because schools have had a shortfall in state funding for support of special education, and because schools are obligated under the Individuals With Disabilities Act (IDEA) to provide free, appropriate

public education to eligible students with disabilities, schools have had to take more and more of their general fund monies to support special education services to meet their obligations. As a result, schools often have been forced to reduce or eliminate some general education programs or services.

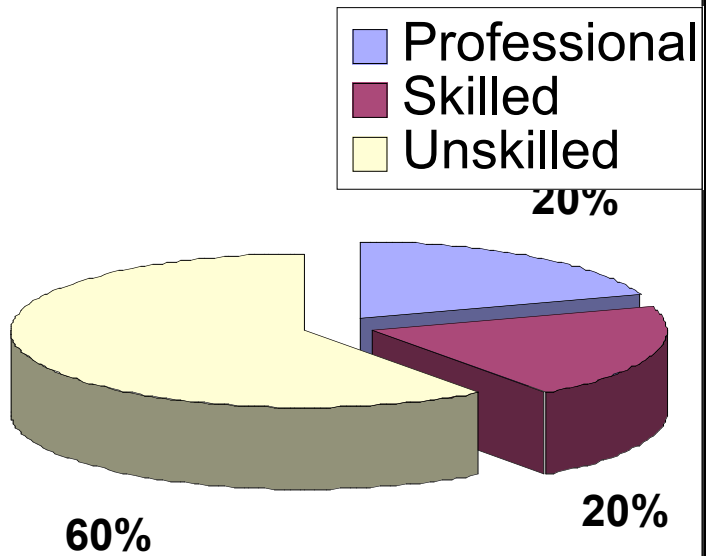
### Conclusion

It is frustrating for me to repeatedly hear that schools are expensive. It is time that we shift our thinking to the investment of education. The 13 years that Montana's children are our students will affect them the rest of their lives. Their educational experience will help to shape them into Montana citizens and productive members of our economy and society. As a state we cannot afford to not invest in our educational system. Give our schools the tools that our educators need to engage our students in learning to prepare the workforce of tomorrow, and to continue our proud Montana tradition of quality education. For many, the local school is not only an institution of learning, but also the heart of our communities.

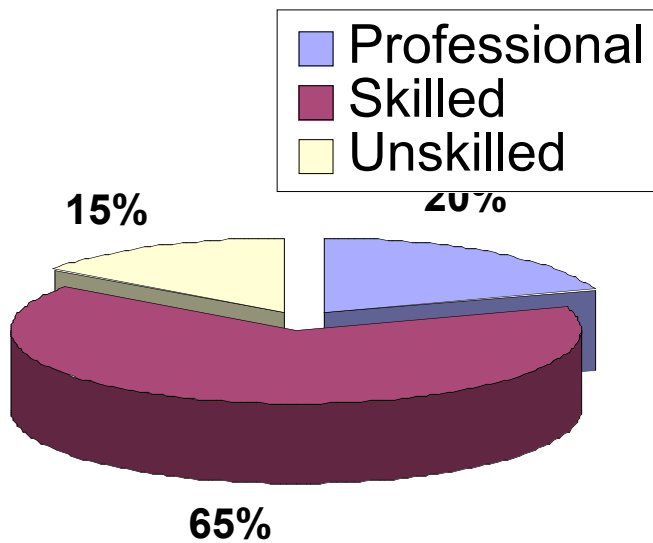
On behalf of Montana's 150,000 students, I thank you for your time and efforts today.

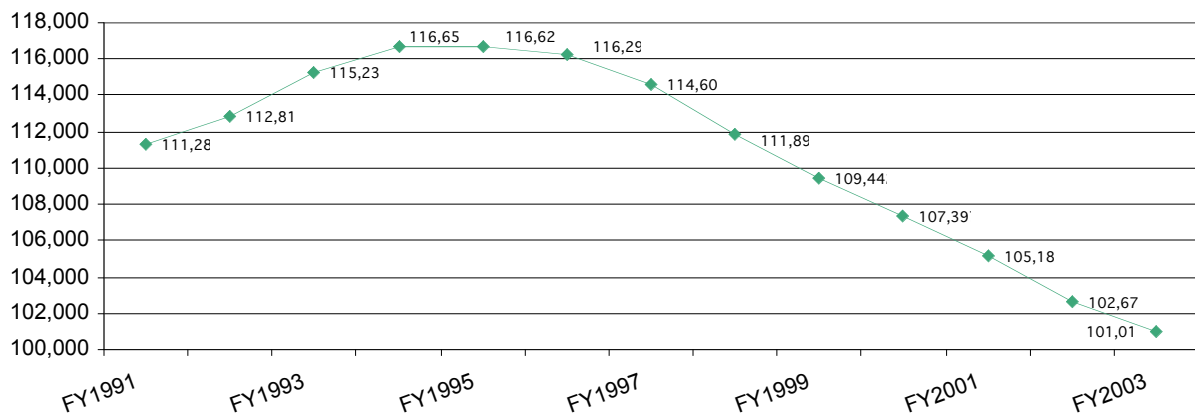


**Demand for Skilled Labor 1950**

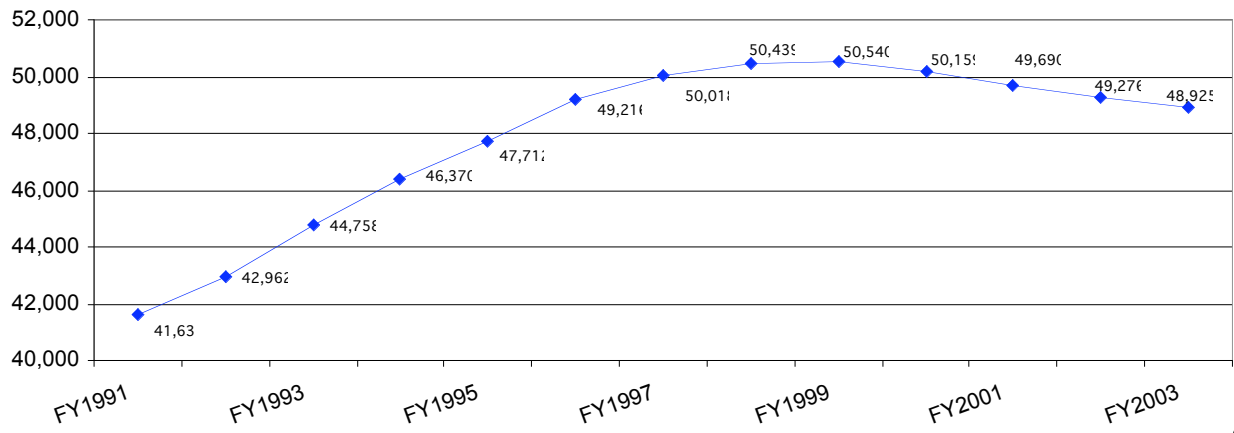
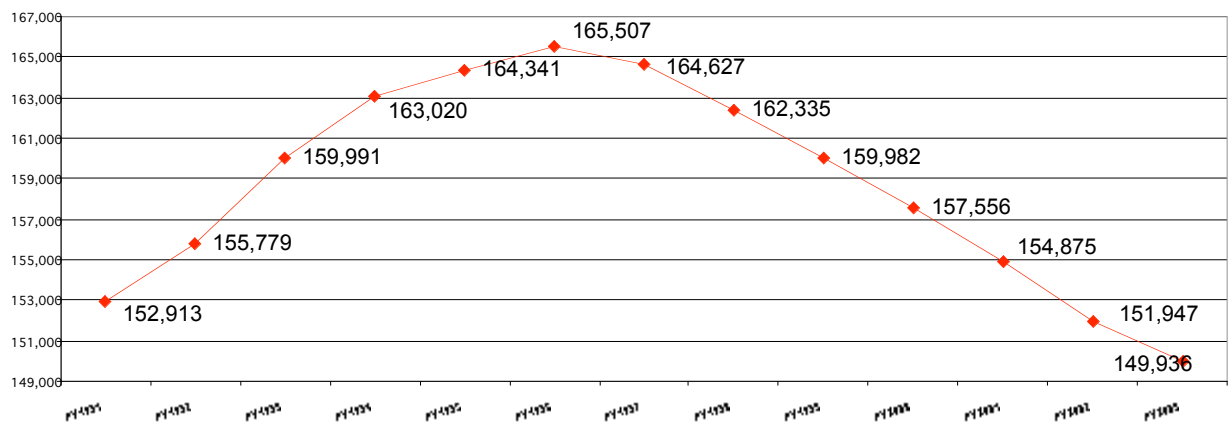


**Demand for Skilled Labor 2000**



**Montana Elementary Enrollment 1991 - 2003**



**Montana High School Enrollment 1991 - 2003**

**Total Enrollment 1991 - 2003**


GENERAL FUND AND GUARANTEE FUND

Funding Levels in Office of Public Instruction Request

Local Education Activities (Program 09)

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2004	FY 2005
	Actual	Actual	Actual	Actual	Actual	Projected	Present Law		OPI Request	
Direct State Aid (GF)	274.987	274.816	285.014	321.695	276.526	273.203	273.427	268.617	286.397	292.087
Direct State Aid (Guarantee Fund)	0.000	0.000	0.000	0.000	45.640	49.812	45.843	45.413	45.843	45.413
GTB - School General Fund	118.722	118.505	120.232	103.436	97.988	101.737	97.830	94.930	102.590	103.44
GTB - Retirement	19.258	19.839	21.079	23.053	18.554	21.796	22.355	22.937	22.565	23.067
School Facility Reimbursement	2.500	3.000	3.360	4.140	4.216	4.450	4.250	4.360	4.250	4.360
Special Education - Medicaid	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Special Education - Coop	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Special Education - Out of State	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Special Education	32.405	32.501	33.879	34.042	33.904	34.913	34.913	34.913	36.658	38.490
Transportation	10.310	10.424	10.588	10.516	10.319	10.449	10.400	10.400	12.100	12.100
Instate Treatment	0.975	1.215	0.506	1.379	0.604	1.346	0.975	0.975	0.975	0.975
Timber Harvest	1.505	0.000	1.418	3.499	0.157	0.000	0.000	1.000	0.000	1.000
Secondary Vocational Education	0.650	0.651	0.720	0.715	0.715	0.715	0.715	0.715	0.715	0.715
Adult Basic Education	0.250	0.249	0.250	0.250	0.275	0.275	0.275	0.275	0.275	0.275
Gifted & Talented	0.139	0.147	0.141	0.156	0.141	0.159	0.150	0.150	0.150	0.150
School Food	0.649	0.637	0.649	0.644	0.649	0.649	0.649	0.649	0.649	0.649
School Flex Fund	0.000	0.000	0.000	0.000	0.000	4.100	0.000	0.000	0.000	0.000
Technology Grants	12.500	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
HB 124 Block grants to schools *	0.000	0.000	0.000	0.000	53.774	52.407	53.494	53.901	53.494	53.901
HB 124 Block grants to counties *	0.000	0.000	0.000	0.000	12.735	11.501	12.210	12.303	12.210	12.303
Other	0.134	0.136	0.137	0.140	0.139	0.149	0.143	0.148	0.143	0.148
<u>Per-educator entitlement</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>12.100</u>	<u>12.100</u>
Total General Fund + Guarantee Account	474.984	462.120	477.973	503.665	556.336	567.661	557.629	551.686	591.114	601.173

\* HB 124 block grants replace revenues that school districts received directly from the county prior to FY2002. Beginning in FY2002, these monies are distributed

by OPI to schools and counties.